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Capital master plan

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the second annual progress report of the Secretary-General on implementation of the capital master plan (A/59/441), as well as his related reports on the status of possible funding arrangements for the capital master plan (A/58/729), viable options for ensuring sufficient parking space at United Nations Headquarters (A/58/712) and plans for three additional conference rooms and viable solutions for allowing natural light into the rooms (A/58/556). The Committee also had before it the report of the Office of Internal Oversight Services on the capital master plan for the period from August 2003 to July 2004 (A/59/420) and the report of the Board of Auditors on the capital master plan for the biennium ended 31 December 2003 (A/59/161). During its consideration of the matter, the Committee met with representatives of the Secretary-General.

2. The status of possible funding arrangements for the capital master plan is outlined in paragraphs 11 to 23 of the second progress report of the Secretary-General (A/59/441). In brief, in February 2004 the host country offered a loan of a maximum amount of $1,200 million at an interest rate of 5.54 per cent, pending approval by the United States Congress (see A/58/729). Under the terms of the offer, after the construction phase, which is to last 5 years, the loan would be converted to a permanent loan to be repaid over a period of 25 years. Over the life of the loan, total principal and interest paid would amount to $2,511 million. Once approved by the United States Congress, the loan agreement must be entered into by 30 September 2005, which is the end of the United States Government's fiscal year, or the offer lapses. Once the agreement is signed, the loan can be activated at any time over the next 35 years, and the United Nations can draw down all or part of the $1,200 million.

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3. The Secretariat has also explored other options for lowering the amount of interest payable over the course of the loan through the use of financial instruments available in the capital markets for United States dollars. Those options are conditional on using the loan agreement with the host country as a guarantee. Whether or not such options will be advantageous will depend on interest rates at the time of construction. An example of one of the capital market alternatives is provided in annex I to the progress report.

4. **The Advisory Committee was informed that the offer had been included in the proposed United States budget for fiscal year 2005 and would likely not be subject to change. However, since the proposed offer cannot be formally made by the host country until the legislative process has been completed, the Committee is not in a position to submit any views on it at this time. The Committee will revert to the matter if and when a formal offer is made.**

5. Given the fact that the utilization of an interest-bearing loan will almost double the cost of implementing the capital master plan, the Advisory Committee enquired as to whether there were any possibility of reducing the scope of the refurbishment of the Headquarters complex. It was informed that the project had been set at a minimum level and any lowering of the estimates would be artificial and risk leading to cost overruns.

6. With regard to the proposed new building (DC-5), which would serve as a temporary location for official meetings of intergovernmental bodies and interim office space (swing space) during the refurbishment of the Headquarters complex, the Advisory Committee notes that, following an assessment of security risks to the new building, the United Nations Development Corporation (UNDC) design team developed a design approach for DC-5 to mitigate potential threats. The design would require specially reinforced construction and would result in significantly increased costs.

7. The preliminary cost estimate for DC-5 developed in 2002 was $315.8 million, which worked out to an estimated fixed rent of $27.59 per square foot in 2005, comparing favourably to the projected rental cost of DC-1 and DC-2 of $26.30 per square foot in 2005. An alternative building design, which was recently presented by UNDC, would result in an estimated fixed rent of $39.32 per square foot for DC-5. Table 1 of the progress report shows projected rent for all three buildings in 2009, 2013 and 2018.

8. Upon enquiry, the Advisory Committee was informed that, aside from the additional costs involved in building a structure using a design approach that would mitigate potential security threats (see para. 6 above), there were other factors contributing to the projected increase in the cost of building DC-5. The Committee was informed, for example, that the original estimate included an amount of approximately $13 million for the construction of an esplanade along the eastern perimeter of the United Nations site between 42nd and 48th Streets to offset the loss to the local community of a portion of Robert Moses Park. UNDC is now proposing a version of the esplanade that would cost approximately $40 million. On another matter related to financing, the Committee was informed that UNDC had planned to raise the money to build DC-5 by issuing tax-free bonds, however current United States tax code will not permit this. Accordingly, a change would be required in the tax code, which, while minor, would take some time to enact.

9. The Advisory Committee notes that the Secretary-General intends to continue negotiations with the City and State of New York with a view to constructing DC-5 at a lease-purchase cost in line with the lease costs of DC-1 and DC-2.

10. In addition to the difficulties described above, the architectural and planning work on DC-5 has been delayed. The Advisory Committee was informed, for example, that UNDC had planned to use the architects that had worked on DC-1 and DC-2 to design the new building. The City of New York, however, decided to hold a design competition, which took nearly a year to complete. As noted in the report of the Board of Auditors, the date of availability of swing space (that is, completion of DC-5) has been moved from September 2005, as anticipated in the report of the Secretary-General of 8 August 2002 (A/57/285 and Corr.1), to the end of January 2008, a delay of 27 months (see A/59/161, para. 42). This will, in turn, have implications for the schedules of other aspects of the plan.

11. The Advisory Committee points out, as it has in the past (see A/57/7/Add.4, para. 20), that delays in the implementation of the capital master plan owing to difficulties encountered in any phase of its development can have a significant impact on the cost of the project. In this connection, the Committee notes the comment of the Board of Auditors that administrative and overhead expenses amounting to about $2.6 million will likely be incurred annually (A/59/161, para. 44). The Committee enquired about measures taken by the Administration to minimize administrative and management costs, as recommended by the Board (ibid., para. 9 (c)). It was informed that the staffing structure of the capital master plan project had been streamlined, a project manager had been engaged whose services could be increased or decreased as needed, and unneeded office space had been leased out. **The Committee encourages the Administration to continue to look for ways to reduce administrative expenses.**

12. The Advisory Committee notes that, in line with General Assembly resolution 57/292 of 20 December 2002, the Secretary-General has initiated the process of establishing an Advisory Board to advise him on financing matters and overall project issues; it is expected that the Board will be established by the end of 2004 (see A/59/441, paras. 38 and 39). The Committee recalls that under the terms of section II, paragraph 19, of resolution 57/292, the membership of the Board is to reflect wide geographical representation. The Committee further recalls that the Secretary-General reported that the Board was in the process of being formed more than two years ago in August 2002 (see A/57/285, para. 66). **The Committee urges the Secretary-General to expedite the process so that the Board may begin its work as soon as possible.**

13. **As indicated above, a number of the basic parameters have changed since the General Assembly adopted resolution 57/292, including the nature of the financing arrangements and the cost of construction. The Assembly may wish to take these developments into account when considering the recommendation of the Secretary-General that it reaffirm its decision in resolution 57/292 to implement the capital master plan (see A/59/441, para. 57 (a)). The Assembly may also wish to provide guidance to the Secretary-General and the Advisory Board, which, in the opinion of the Advisory Committee, should consider a wide range of options for financing the project and for dealing with the need for swing space during construction, including various possibilities for the**

relocation of intergovernmental meetings and interim office space during that period.

14. With regard to the plans for three additional conference rooms and viable solutions for allowing natural light into the rooms (see A/58/556), the Advisory Committee notes that an amount of $6 million has been included in the capital master plan for construction and furnishing of the rooms (ibid., para. 4). The Secretary-General outlined three layout options for the conference rooms. The cost of introducing natural light through flush skylights, with windows where feasible, would range from $700,000 to $1.2 million, depending on the layout option chosen (ibid., para. 26, table). Option 1 would provide for 3 skylights in one conference room only and windows, at a cost of $700,000; option 2 would provide for windows and a total of 9 skylights at a cost of $1.2 million; and option 3, although it does not permit windows, allows for the addition of 13 skylights at a cost of $1.1 million. The other costs of the various options are similar; therefore the costs for introducing natural light are the only cost variable (ibid., para. 28).

15. As concerns the report of the Secretary-General on viable options for ensuring sufficient parking space at United Nations Headquarters (A/58/712), the Advisory Committee notes that four option groups are outlined. Option group 1, which entails reallocation of storage and reconfiguration of parking spaces, would result in an additional 66 spaces at an average cost of $3,000 per space. Option group 2 provides three options for new construction; the number of new spaces would be between 90 and 660 at an average cost per space of $12,000 to $94,000, depending on the option chosen. Option group 3 would entail the installation of automatic parking platforms and would result in 130 to 218 additional spaces at an average cost of $136,000 to $165,000 per space; in addition, annual operating costs under this option group would range from $318,000 to $636,000 depending on the parking floors selected for mechanization. Option group 4 is for parking attendant-assisted parking and would provide for up to 688 additional spaces. There would be no additional construction costs; however, annual costs for attendants would be in the range of $400,000 per garage level. **Under the circumstances, it appears to the Committee that only option groups 1 and 2 are viable.**

16. **The Advisory Committee takes note of the reports of the Secretary-General on plans for three additional conference rooms and viable solutions for allowing natural light into the rooms (A/58/556) and on viable options for ensuring sufficient parking space at United Nations Headquarters (A/58/712); however, the Committee considers that, given the current uncertainties of the financial arrangements for the capital master plan as whole, it is premature to make a recommendation on the issues of the layout of additional conference rooms or the options for increasing parking space at Headquarters.**

17. A summary of the status of appropriations and expenditures for the capital master plan is given in paragraphs 51 to 56 of the progress report (A/59/441). In its resolution 57/292, the General Assembly appropriated $25.5 million for the design development phase and commitment authority of $26 million for the biennium 2004-2005 for the construction document preparation phase of the capital master plan. The Advisory Committee notes that both phases are behind schedule by approximately one year; however, it is projected that they will be completed within the resource levels approved by the Assembly.

18. Actual expenditures in 2003 amounted to $3.205 million and the total projected expenditure for 2004 is estimated at $19.364 million. As at 31 July 2004, an amount of $9.582 million had already been committed towards the design phase. Upon request, the Advisory Committee was provided with a breakdown of the status of expenditures for the capital master plan as at 31 October 2004 (see annex). Details on the projected costs of the design development and construction documents phases are provided in tables 2 and 3 of the progress report.

19. As noted in paragraph 55 of that report, owing to the delay in implementation of the first two phases of the plan, the Secretary-General will need to provide for expenditure to be incurred in 2005 and 2006. He therefore proposes, in paragraph 57, converting an amount of $18,642,000 of the commitment authority of $26 million approved for the biennium 2004-2005 into an appropriation for the biennium 2004-2005 and extending the validity of the residual balance of the commitment authority in an amount of $7,358,000 into the biennium 2006-2007. **The Advisory Committee recommends approval of this proposal.**

Annex

Status of expenditures under the capital master plan as at 31 October 2004

	Pre-encumbrance	*Obligations*	*Disbursement*	*Total*
Biennium 2002-2003				
Contractual services	-	337.1	520.8	857.9
Support costs	-	9.7	1 781.9	1 791.6
Operating and other costs	-	-	556.0	556.0
Subtotal	-	**346.8**	**2 858.7**	**3 205.5**
Biennium 2004-2005				
Contractual services	44.6	11 828.0	64.6	11 937.2
Support costs	-	-	1 711.5	1 711.5
Operating and other cost	1.8	62.7	478.0	542.5
Subtotal	**46.4**	**11 890.7**	**2 254.1**	**14 191.2**
Total	**46.4**	**12 237.5**	**5 112.8**	**17 396.7**